



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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CITY ATTORNEY URGES PUBLIC DEBATE OVER REMEDIATION STEPS PUT FORWARD BY KROLL

San Diego, CA: Calling for a vigorous debate over remediation recommendations to address the City's financial crisis, City Attorney Michael Aguirre today urged the public to thoroughly review the action plan embraced by Mayor Jerry Sanders and slated for quick adoption by the San Diego City Council at a special meeting on September 6, 2006. The Mayor's action plan mirrors the remediation recommendations contained in the \$20.3 million Kroll Report, released on August 8, 2006.

"Today should mark the beginning of the debate," said City Attorney Aguirre. "With the Mayor taking a strong position, the City Attorney taking a strong position, and the citizens and media examining the issues, we will have the best outcome, the best plan for reforming our City."

Key Kroll proposals needing public evaluation include: appointing an outside monitor to supervise the City, removing the City Attorney as chair of the municipal bond Disclosure Practices Working Group (DPWG), maintaining the legal status quo at the Retirement Board, appointing an independent Auditor General, and creating a separate, three-member Audit Committee.

"My concern is that the Kroll recommendations allow the City Council to implement changes that still give them leverage over so-called, 'independent' monitors and auditors," said Aguirre. "Remember, these are many of the same Councilmembers who bear responsibility for creating the financial crisis we now find ourselves in."

The City Attorney also expressed strong concern over the recommendation to replace the City Attorney's Office as chair of the DPWG, and to allow the Retirement Board to appoint its own counsel as, "not a prescription for reform."

Aguirre noted that moving forward with the Kroll recommendations prior to the Securities and Exchange Commission (SEC) making *its* recommendations, would be premature. He pointed out the distinction between satisfying KPMG, the firm tasked with completing the City's 2003 audit, and satisfying the SEC, whose recommendations the City must adopt.

“Getting the 2003 audit out is absolutely critical, but it’s only a snapshot in time. What will it show? The City of San Diego has many more liabilities than assets. We are not a credit-worthy city,” said Aguirre. “We cannot leave all those illegal benefits on our financial statements and go to the bond market without it having a catastrophic financial impact on our ability to raise capital.”

(MORE)

Kroll, Inc. is a risk management firm hired by the City of San Diego in February 2005 to analyze conflicting investigative reports by the law firm of Vinson & Elkins and the San Diego City Attorney. The \$1.4 billion employee pension debt is the result of agreements between the San Diego City Council and the San Diego City Employees' Retirement System (SDCERS) Board in 1996 and 2002 that allowed the City of San Diego to pay less than what was required to fully fund the pension obligations in exchange for granting increased benefits to City employees.

In February 2004, the SEC and the U.S. Attorney began investigating the City of San Diego, probing into its financial disclosure practices and pension system.

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